REITs

Anchored By Further BNM Rate Cut And VMY2026

MARKET WEIGHT
(Maintained)

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Highlights

- The sector has underperformed in 2H25 thus far (+3.1%), with valuation now at 5.7% forward yield (+0.5SD above mean).
- Sector valuation will be supported by an expected rate cuts but upside will be capped by a slower rental reversion growth outlook and the imposition of an 8% SST on brokerage fees for REITs.
- Maintain MARKET WEIGHT, supported by a stronger hospitality segment and resilient industrial demand with longer WALEs. Top picks: PREIT and CLMT.

Analysis

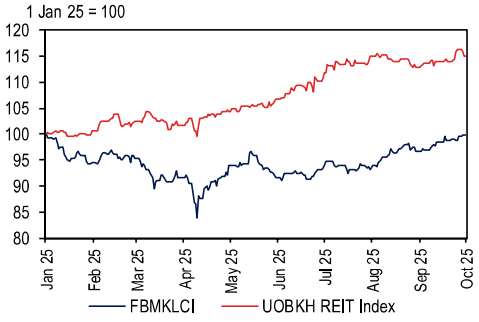
- **Sector valuation should be supported by an expected rate cut.** The REITs sector has underperformed the FBMKLCI thus far in 2H25, recording a 3.9% gain compared with the FBMKLCI's 8.0%, due to: a) investors gradually turning risk-on, and b) the sector's stellar performance in 1H25 (+12.2%). Looking ahead, the sector's valuation should be supported by: a) another 25bp interest rate cut in 4Q25, based on UOB's economist's forecast, and b) a stable yield spread against the 10-year MGS. The sector currently trades at 5.7% 12-month forward dividend yield (vs 5- and 10-year means of 5.9% and 5.4% respectively), and a yield spread of 226bp (vs 5- and 10-year means of 223bp and 170bp respectively).
- **However, near-term sentiment may be capped** by: a) a slower rental reversion growth outlook amid the expanded scope of SST, and b) imposition of the 8% SST on brokerage services for REITs (albeit minimal actual cost impact). Retail REITs are generally cautiously optimistic on its rental reversion growth outlook in 2H25 and 2026 given: a) a weaker consumption spending, and b) higher occupancy cost (from the immediate 8% hike in base rents) which limits aggressive rental reversion in the near term. Nevertheless, the lower electricity costs should partially cushion the negatives, supported by lower fuel costs and higher Automatic Fuel Adjustment (AFA) rebates in Oct 25 at 6.5 sen per kWh (vs Sep 25's 1.1 sen per kWh). To recall, there was a reduction of around 20% in REITs' tariff bills in Jul 25 when AFA was at 0 sen per kWh.
- **Hospitality segment to be bright spot in 2026.** Malaysia recorded 12.9m tourist arrivals in 1H25 (+8.8% yoy), reaching 96.2% of 1H19 levels. Top 3 source countries were Singapore (34.3%), Indonesia (15.0%), and China (14.4%). Notably, Malaysia emerged as the top Southeast Asian destination in 1Q25, attracting 10.1m visitors due to the relaxed visa policies, surpassing Thailand (9.6m), Vietnam (6.0m), and Singapore (4.3m). Looking ahead, Tourism Malaysia has set an ambitious target of 35.6m tourist arrivals for Visit Malaysia Year 2026 (VMY2026) (vs 2019: 29.1m). This bodes well for hotels and convention centres located near tourist attractions. Beneficiaries include PREIT and KLCCSS.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
CapitaLand Malaysia	CLMT MK	BUY	0.62	0.78
Pavilion REIT	PREIT MK	BUY	1.85	2.00

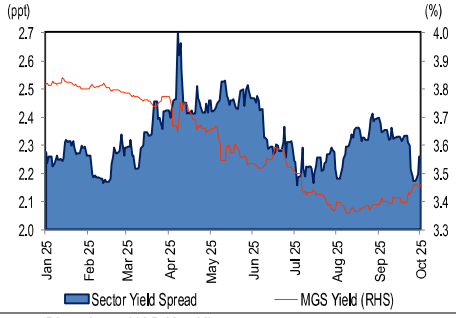
Source: Bloomberg, UOB Kay Hian

UOBKH Reit Index VS FBMKLCI



Source: Bloomberg, UOB Kay Hian

Sector's Yield Spread To MGS Yield



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 2 Oct 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024 (x)	PE 2025F (x)	PE 2026F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (RMm)	Price/ BV ps (x)
Axis REIT	AXRB MK	BUY	2.05	2.24	9.3	12/24	24.7	21.1	20.4	5.0	6.4	4,183	1.3
CapitaLand Malaysia	CLMT MK	BUY	0.615	0.78	26.8	12/24	12.9	12.0	11.5	8.3	5.4	2,065	0.6
IGB REIT	IGBREIT MK	HOLD	2.78	2.59	(6.8)	12/24	26.4	24.3	21.8	4.8	9.3	9,966	1.7
KLCC Stapled Group	KLCCSS MK	HOLD	8.61	8.62	0.1	12/24	19.8	17.9	17.2	5.5	6.5	15,508	2.7
Pavilion REIT	PREIT MK	BUY	1.85	2.00	8.1	12/24	22.0	19.4	18.7	5.5	7.8	7,300	1.9
Sunway REIT	SREIT MK	HOLD	2.12	2.05	(3.3)	12/24	22.2	19.6	18.4	5.2	7.2	7,432	1.4
KIP REIT	KIPREIT MK	NR	0.89	NR	-	6/25	-	11.4	10.9	7.8	7.3	816	0.8

Source: UOB Kay Hian

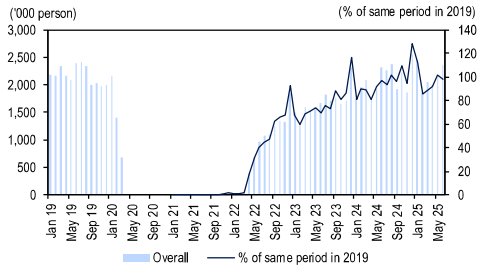
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** The sector valuation is supported by a potential interest rate cut in 4Q25 and lower electricity costs. However, we believe the upside is capped due to: a) inflationary pressures from the SST expansion, and b) imposition of the 8% SST on brokerage fees for REITs trading, which will cap investors' trading sentiment. Hence, we remain selective, preferring REITs with: a) exposure to high-quality retail and hospitality assets (particularly prime or niche malls with high occupancy), b) industrial assets benefitting from sustained e-commerce and logistics growth, and c) strong sponsor backing with visible inorganic growth pipelines.
- We reiterate our top picks as CLMT and PREIT, given their relatively higher forward 2026 yields at 8.3% and 5.5% respectively, which will also cushion the impact of brokerage costs under the new 8% SST regime. That said, the overall cost impact is fairly negligible. For example, on a RM5m trade with 15bp commission, the incremental SST amounts to only RM600, equivalent to 0.012% of trade value.
- **Pavilion REIT (PREIT MK/BUY/Target: RM2.00).** We raise our target price from RM1.88 to RM2.00, reflecting a lowered required rate of return from 7.7% to 7.4% as we adjust for a lower risk-free rate and beta assumptions. PREIT stands to benefit the most from a falling interest rate environment, given its low fixed-rate borrowing mix of 13%. We expect its flagship asset Pavilion KL Mall to continue seeing higher footfall yoy and sustained tenant sales on the back of rising inbound tourists. Its recently completed acquisitions of two prime hotels, Banyan Tree KL and Pavilion Hotel KL, should further capitalise demand from VMY2026. Our new Dividend Discount Model-based target price implies a dividend yield of 5.1% for 2026 (vs 10-year mean 5.4%)
- **Capitaland Malaysia Trust (CLMT MK/BUY/Target: RM0.78).** Capitaland continues to benefit from its strong presence in neighbourhood malls, with assets outside Klang Valley delivering resilient performance. In recent years, the company has expanded into industrial properties, acquiring over RM400m worth of assets, providing a stable and long-term recurring income portfolio. We remain positive on the company for its attractive dividend yield of 8.3%. Our target price implies a 6.6% 2025 dividend yield (vs 10-year mean of 6.1%), based on the Dividend Discount Model (required rate of return: 7.8%, terminal growth: 1.5%)
- **AXIS REIT (AXRB MK/BUY/Target: RM2.24).** We raise our target price from RM2.09 to RM2.24 due to a lowered required rate of return from 6.5% to 6.2% as we adjust for a lower risk-free rate and beta assumptions. We expect Axis REIT to continue with its yield-accretive assets acquisitions on the back of healthy gearing. Axis REIT is poised to capitalise on the resilient demand in logistics and warehousing space, having 58% of its portfolio in Selangor and 27% in Johor. Furthermore, AXIS REIT's WALE of 4.6 years provides income visibility and buffers against potential pressures from rental renewals following the implementation of the 8% SST on leasing. Our new DDM-based target price implies a dividend yield of 4.6% for 2026 (vs 10-year mean of 4.8%).

Sector Catalyst/Risk

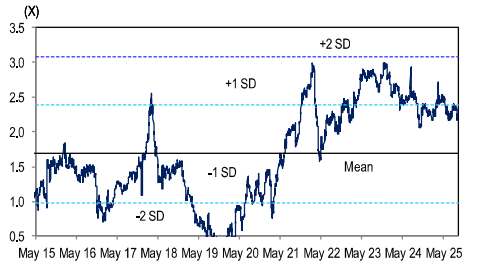
- Improvement in flight connectivity and international tourist arrivals.
- Retail sales trend or any change in consumer sentiment.
- Potential further monetary loosening.

Tourist Arrival In Malaysia



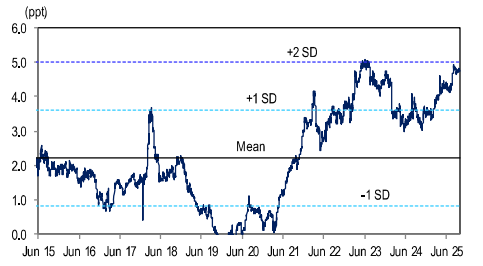
Source: Tourism Malaysia, UOB Kay Hian

Sector Forward Yield Spread



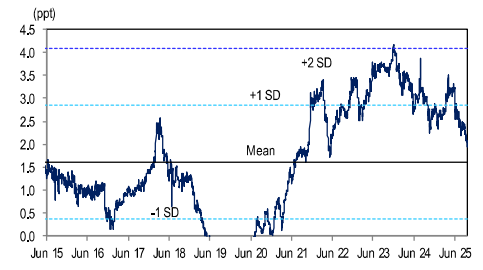
Source: Bloomberg, UOB Kay Hian

CLMT Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

PREIT Forward Yield Spread



Source: Bloomberg, UOB Kay Hian

AXRB Forward Yield Spread

Source: Bloomberg, UOB Kay Hian

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